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USSR-CYPRUS

The Soviets are trying to encourage various non-aligned states to call for a special General Assembly session to deal with Cyprus.

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This diplomatic activity is consistent with Moscow's position that the future of Cyprus should be settled within the UN framework--the only place the Soviets can exert pressure. Soviet Ambassador Malik is serving this month as president of the UN Security Council; Moscow undoubtedly views this as a plus in dealing with the Cyprus situation. Malik's veto last week of Secretary General Waldheim's proposal for a new mandate for the UN peace-keeping force on Cyprus was probably intended to call attention to Moscow's desire to have a role in determining the future of Cyprus.

In an effort to promote the UN forum, the Soviets have attacked the tripartite peace conference in Geneva and are trying to spread distrust of NATO's intentions regarding the island. On August 4, Pravda said the Geneva cease-fire declaration was meant to delay a political settlement and to prolong the occupation of Cyprus. Soviet Ambassador Minin, who was dispatched to Geneva as an observer, told US diplomats he was perturbed that the Geneva accord contained no guarantees for the future sovereignty of Cyprus.

Moscow is concerned that the longer Turkish and Greek troops remain on the island, the greater are the prospects for partition. Moscow's diplomatic activity

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is designed to forestall such a development and ensure that any proposals for federation do not compromise Cypriot sovereignty.

25X1 These concerns may be leading Moscow to adopt a cooler attitude toward Ankara.

The USSR, meanwhile, has expressed cautious approval of the new government in Athens. The Soviet ambassador had his first official contact with the new government on August 5 in a meeting with Foreign Minister Mavros, and Pravda commended Athens for its positive attitude toward a Cyprus settlement. The article took a sympathetic view of Greek domestic developments, although it did warn that a threat from the right remains.

25X1 The Soviets are soft-pedaling the issue of Makarios, at least for the time being. While the Soviets may realize that prospects for his return are becoming increasingly remote, they probably want to keep the issue alive as long as they see Makarios as an influential spokesman against partition.

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LAOS

Lao Communist Deputy Prime Minister Phoumi Vongvichit will apparently head the coalition government during Prime Minister Souvanna's convalescence abroad.

Phoumi has, in fact, already begun to assert himself as the senior member of the cabinet and to take over as acting prime minister. Phoumi had taken the initiative for the two cabinet meetings held since Souvanna became ill on July 12. Although he shared the chair with the lackluster Leuam, Phoumi clearly dominated both sessions.

There is growing apprehension among the non-Communists that Souvanna--who hopes to leave later this month for several months' recuperation in France--may never be able to resume his duties. For the first time since the Prime Minister was stricken, the non-Communists on August 5 seriously considered the problem of selecting a permanent successor.

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They generally agreed that their first choice should be a political nobody from outside the coalition structure. Prince Khammao, the president of the King's Council, emerged as the leading contender. The non-Communists' second choice was Interior Minister Pheng Phongsavan. He has long been a strong candidate for prime minister, in part because his neutralist credentials have made him generally acceptable to both sides.

As a possible third choice for prime minister, the non-Communists surprisingly agreed that they could accept Pathet Lao leader Prince Souphanouvong--if he would place the nation above Communist objectives, and if he would be acceptable to the US and other Western powers.

ISRAEL

An Israeli mobilization exercise has been under way since last week. Israeli press reports say that some reservists were called up last week and others early this week. The exercise reportedly is to test a new system for recalling the reserves in an emergency. The full extent of the exercise and the number of reservists involved, however, are not known.

Israeli military authorities have announced that a large-scale military exercise involving airborne, armor, and infantry forces is taking place on the Israeli West Bank. Other exercises involving naval and air units also are in progress. Some of the recalled reservists probably are participating in these maneuvers.

Both the call-up and the exercise come at a time when Israeli authorities are saying that a new round of fighting could occur within the next 3 to 12 months. The Israelis claim to be taking precautions against such an eventuality. The Jerusalem Post says that Tel Aviv plans to recall "thousands" of reservists, particularly those with technical qualifications, "to prepare Israel's weapons" for any new war.

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PORTUGAL-US

The provisional government in Lisbon has reversed its position that negotiations for the renewal of the US base on the Azores be delayed until a permanent government is formed next year.

The Portuguese ambassador in Washington told State Department officials this week that the current government is suffering financially and needs the compensation it hopes the US can provide in return for a five-year extension of base rights. It was agreed that formal talks would begin between ambassadors Themido and McCloskey on September 3.

In addition to rent payments, the general categories of compensation Themido mentioned included military equipment--particularly for the air force--assistance loans, direct assistance to the population on the Azores, educational aid, and grain. Themido returns to Lisbon today for more detailed instructions.

During the negotiations, the Portuguese probably will stress that more US assistance will be necessary to help the political moderates now ruling Portugal to consolidate their power. Themido set the stage for such a pitch last week when he told Secretary Hartman that Portuguese moderates need help soon to prevent a slide to the left.

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PORTUGAL

Foreign Minister Soares briefed chiefs of mission from 20 Western governments on August 5 about the current state of play between Lisbon and its African provinces.

According to Soares, Lisbon is prepared to transfer power to the rebel movement in Portuguese Guinea, but is waiting to meet with the insurgents for a final round of talks. Soares commented that Lisbon could recognize independence unilaterally, but this would suggest that the Portuguese troops would withdraw immediately. He seems to think that Portuguese forces would aid the rebels in consolidating their position, while authority is being transferred to the rebel-proclaimed government of Guinea-Bissau. Lisbon is also ready to support admission of the Republic of Guinea-Bissau to the UN.

Soares repeated Lisbon's position that the Cape Verde Islands are a separate issue from Portuguese Guinea. He stated that Lisbon wants the Cape Verdians to determine their own future and cited UN resolutions that distinguish between Cape Verde and Portuguese Guinea. He thought that the island territories of Principe and Sao Tome, located off the coast of Equatorial Guinea, should also be allowed to determine their own future.

Soares believes that Mozambique is next in line for independence. Lisbon hopes to form a coalition government with the Front for the Liberation of Mozambique and to hold elections for a constituent assembly in about a year. There is no sign yet that the rebels will agree to such a plan. In their brief meeting with Soares in June, they refused to negotiate except on the basis of a direct turnover of power.

Lisbon hopes the plan for independence in Mozambique can be followed in Angola. However, Angola's situation is complicated by the fact that there are three liberation groups--none of which is dominant--with which to begin negotiations. Lisbon claims to have contacted all three and hopes to begin negotiations soon.

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WEST GERMANY - MBFR

West German foreign office officials have once again voiced concern about how the issue of nuclear and related weapons is to be introduced into the Vienna force reduction negotiations.

The Bonn officials stressed that nuclear elements--such as warheads, missiles, and aircraft--should not be introduced as a package. Instead, each type of weapon should be brought into the negotiations separately. The officials also asserted that nuclear capabilities are too important to be used merely to buy the USSR's agreement to withdraw a Soviet tank army in the first phase of the negotiations.

In the past, German officials have spoken of trying to obtain Soviet agreement to the Western "common ceiling" concept--placing an upper limit on the ground force manpower of the two sides in central Europe--in return for nuclear reductions by the West. They also proposed previously that the allies urge reciprocal nuclear reductions or perhaps a freeze on the nuclear weapons of each side in central Europe.

One of the officials suggested that the Soviets might be more interested in an agreement giving them some influence in future West European defense cooperation than in an agreement on nuclear issues.

The Germans said that they hoped to have further discussions with the US and the UK before the US makes a final decision on the question of including nuclear elements in the force reduction negotiations. Although British officials have not addressed the nuclear issue within the last few weeks, they will probably agree basically with the Germans.

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ITALY

The Rumor government has dropped controls on prices of industrial goods but will continue a selective price freeze. The new control program probably will be unable to prevent a speedup of inflation. Because of rising wages and increased prices for raw materials earlier this year, costs to consumers will probably increase at an annual rate of 25 percent during the rest of the year.

Prices of goods in seven basic categories--including bread, fresh beef and other imported meats, and edible oils--will continue to be frozen. Rome and the provincial authorities will also monitor a few other food items. For almost all other products, the government will influence prices only through consultations with large distributors and cooperatives.

Although tailored to control items that figure prominently in the calculation of the cost-of-living index, the new program is unlikely to be any more successful than the old one, which was much more broadly based. Pressures to raise prices are still strong, and strict enforcement of price controls could lead to hoarding and shortages.

The government's austerity program, now being revised in parliament, probably holds more hope for restraining inflation than does the price control program. By cutting the Treasury deficit and reducing demand, the program eventually should ease price pressures.

In the short-run, however, the austerity program could add to price increases. The measures contain indirect tax increases, which add directly to the consumer price index. In addition, the rise in prices will trigger automatic wage adjustments, adding to production costs.

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AUSTRALIA

The two houses of the Australian parliament, meeting in an unprecedented joint session yesterday, passed three of six bills that were rejected twice by the opposition-controlled upper house in the last parliament. This is what led Prime Minister Whitlam to call national elections last May.

Whitlam arranged for the joint session--provided for under the constitution, but never used by a previous Australian government--after the new Senate voted down the bills a third time. His Labor Party has a majority in the combined membership of both houses. One of the three legislative acts, a bill on redistricting, would be to Labor's advantage.

Three more bills will be considered today, two on national health services and one on establishing a federal petroleum and minerals authority. They have been pictured by the opposition as impinging on states' rights. The central government is anxious to control resource policy and takes a harder line on foreign investment than do the states.

Although the Whitlam government apparently will achieve its immediate aim of enacting previously blocked legislation, it faces a court challenge on the validity of its actions. The court may invalidate one of the bills on grounds that the government violated parliamentary procedure in pushing it through.

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ETHIOPIA

The Armed Forces Coordinating Committee is said to be pressing Prime Minister Mikael Imru to dismiss four members of his new cabinet. The committee, which wants to include the four in its roundup of officials charged with corruption, seems prepared to put in military officers in place of Mikael and other civilians if Mikael does not comply.

Some members of the cabinet consider that, in appointing these controversial figures, Mikael ignored the power of the Coordinating Committee and fear that he may soon be forced from office. Mikael accepted the committee's nominees for the defense and interior ministries, but he apparently believed he could override opposition to the other four.

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Over 100 former officials are now under arrest. These include many of Ethiopia's most prominent aristocrats, and some people close to the Emperor. The most recent list of persons to be arrested, announced last weekend, includes the Emperor's private secretary and 26 judges.

Unlike earlier lists, this one includes low-level bureaucrats. If arrests of lower ranking officials continue, the effectiveness of the government will slip even further.

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PAKISTAN-INDIA

Talks between Islamabad and New Delhi, broken off by Prime Minister Bhutto in mid-May following India's nuclear test, may be resumed soon. The talks would be directed at restoring communications, transportation links, and other ties broken by the 1971 war.

No date has been proposed for the talks, but recent statements by Pakistani and Indian leaders indicate a willingness to meet in the near future. Pakistan's about-face on talks apparently stems from the belief that the maximum amount of propaganda has been squeezed from the nuclear test. Leaders in both countries are preparing their people for a resumption of negotiations by underscoring the benefits that will be generated by normalization of relations on the subcontinent.

Rapid progress in negotiations should not be expected, however. Pakistan and India still have widely differing views on the pace and substance of the talks, and suspicions remain deeply ingrained. Pakistan wants to resolve all outstanding issues between the two countries as quickly as possible. India favors a slower course, beginning with the re-establishment of communications and transportation links, before moving on to diplomatic relations. New Delhi has also proposed that no preconditions be set before the meetings begin.

Developments in the Indian state of Kashmir could torpedo the negotiations before anything is accomplished. The Indians are currently negotiating with long-time Kashmiri leader Sheikh Abdullah for a new constitutional relationship between the state and the central government in New Delhi. Bhutto would react strongly to any change in the status of predominantly Muslim Kashmir, because of the very negative reaction that would be generated in Pakistan.

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ARGENTINA

A showdown within Mrs. Peron's government over economic policy has been delayed but not averted.

In a speech yesterday, the President made no mention of reports that Economy Minister Gelbard's resignation was imminent, and her brief statement was restricted to a call for public vigilance against "speculators" and a plan for neighborhood committees to investigate shortages.

After the President's broadcast, Gelbard denied press reports that he was planning to resign because of policy disputes with the head of the Central Bank. A serious confrontation, however, is unavoidable because both advisers have staked their reputations on diametrically opposed stands.

Last week, Central Bank President Gomez Morales publicly denounced business demands for easy credits to finance recent wage bonuses and characterized current price policy as a "crisis." The extra bonuses, amounting to one half of an employee's monthly salary, are normally given in July and December. This year, however, both bonuses were granted in July to quiet growing labor unrest over consumer shortages. Business leaders, on the other hand, requested easy credit to finance the advances because continued price controls prevent passing on the cost through price hikes. Many firms thus face a serious liquidity problem, due to strains on cash reserves triggered by the continuing profit crunch and high wage bills.

Morales' opposition to easy credit is based on his growing concern over continued rapid monetary expansion, which boosted Argentina's money supply more than 75 percent during the 12 months ending on June 30. Rapid monetary expansion has been a major factor in the excess consumer demand and resulting shortages during the past year. Morales' stance places him in direct opposition to the Peronist business confederation and its former president--Economy Minister Gelbard.

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The Gelbard-Morales rivalry is long-standing, as is the animosity between Gelbard and presidential secretary Lopez Rega. Lopez Rega's recent alliance with Lorenzo Miguel--the most influential leader of the Peronist labor movement--makes further wage hikes and continued price controls almost inevitable. Since Morales lacks a sufficient political base to take on Peronist business by himself, the unfolding power struggle may include an alliance with Lopez Rega. If this is the case, Gelbard's days in office may be numbered.

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URUGUAY

President Bordaberry's refusal to accept military demands for the recall of some 90 Uruguayan diplomats, including former president Jorge Pacheco, sets up another potential showdown between the President and the armed forces. Pacheco has been the target of a recent military investigation into smuggling and corruption, and Bordaberry, believing that some military leaders are determined to take action against the former president, says he will not authorize the recall as long as Pacheco's name is on the list. Bordaberry's enemies in the armed forces have accused him of protecting corrupt friends, and some favor replacing the President eventually with a military man. Unless military leaders have firm evidence against Pacheco, however, they may not force a crisis on this issue.

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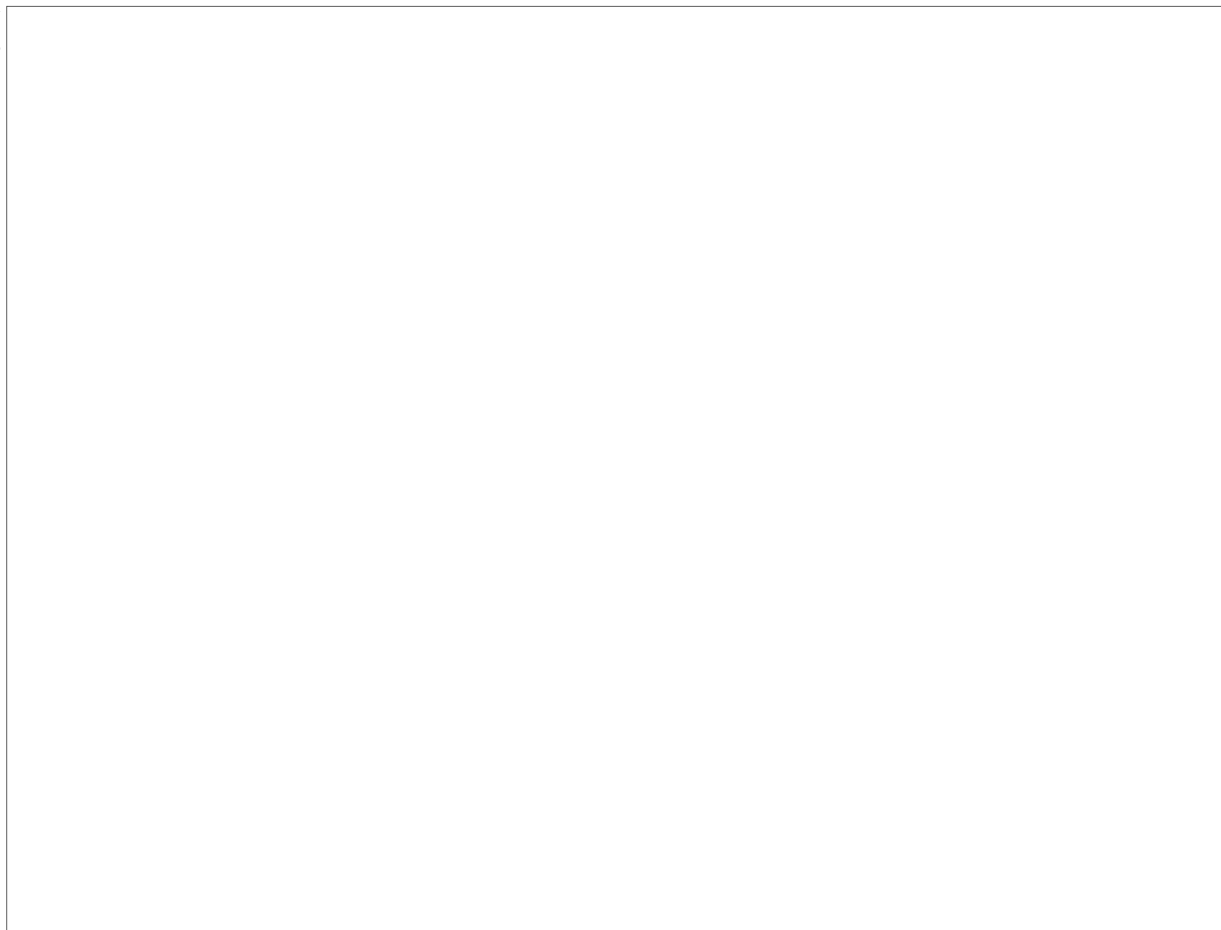
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FOR THE RECORD



Israel-Lebanon: Israeli air force planes struck Palestinian guerrilla targets in southern Lebanon early this morning. The raid apparently was prompted by the kidnaping yesterday of several Arab laborers by Arab infiltrators. During that incident, several Israeli halftracks crossed the border, and Lebanese and Israeli forces exchanged artillery and mortar fire. There has been no report of casualties during the exchange. [REDACTED]

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